

Collection Frequency: Monthly

Major Drivers:

- Insignias (packs) sold
- Tax rate

Statutory Reference:

Tax Rate (MCA) – 16-11-111

Tax Distribution (MCA) – 16-11-119

Date Due – within 30 days after purchase of the insignia (16-11-117)

% of Total FY 2004 General Fund: 2.61%

Reasons For Historical Changes:

- Tax Changes
 - 1964-First Surgeon General's Report on the Health Consequences of Smoking. Noted risk factors associated with cigarette smoking and coronary disease
 - 1965-Federal Cigarette Labeling and Advertising Act of 1965 required package-warning labels and required DHEW to report annually to Congress on the health consequences of smoking
 - 1969-Public Health Cigarette Smoking Act of 1969 toughened cigarette-warning labels and prohibited cigarette advertising on television and radio
 - 1983-Increased tax rate from 12 cents to 16 cents per package of 20 cigarettes (HB 408. 1983 Session Law Chapter 607)
 - 1984-Comprehensive Smoking Education Act of 1984 instituted 4 rotating health-warning labels on cigarette packages, created a Federal Interagency Committee on Smoking and Health, and required that the industry list all ingredients added to cigarettes
 - 1984-Increased tax rate by 8 cents per package of 20 cigarettes from Oct. 1985 through May 1987 (HB 45. 1985 Session Law Chap-

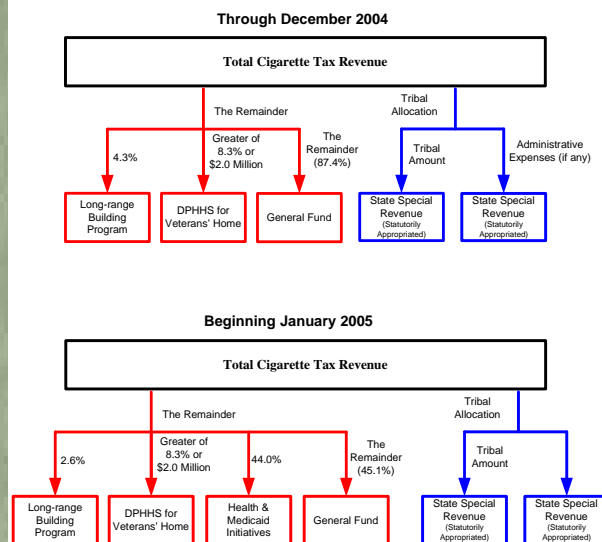
Forecast Methodology



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- 1987-Public Law 100-202 banned smoking on domestic airline flights of less than 2 hours
- 1989-Increased tax rate from 16 cents to 18 cents per package of 20 cigarettes (HB 202. 1989 Session Law Chapter 681)
- 1992-Synar Amendment to the Alcohol, Drug Abuse, and Mental Health Administration Reorganization Act required all states to adopt and enforce restrictions on tobacco sales and distribution to minors
- 1992S- Increased tax rate from 18 cents to 19.26 cents on each package of 20 cigarettes for one year (HB 44. 1992S Session Law Chapter 15)
- 1993-EPA releases final risk assessment on environmental tobacco smoke and classifies as a "Group A" carcinogen
- 1993-Provided an exemption for cigarette taxes on reservation lands (HB 283. 1993 Session Law Chapter 352)
- 1994-OSHA proposes regulation to prohibit smoking in workplace
- 1995-Enacted law to make use of tobacco

Distribution Methodology



products illegal for youth under the age of 18 (HB 457. 1995 Session Law Chapter 376)

- 1998-President Clinton orders all federal workplaces smoke free
- 2002-Helena Montana passes Intuitive 146 with 66 percent of the vote, instituting the strictest public smoking ban in Montana, which included bars and casinos
- 2003-Increased tax rate from 18 cents to 70 cents per package of 20 cigarettes and changed the distribution of the tax, requiring deposit of "the remainder" of the receipts into the general fund (SB 407. 2003 Session Law Chapter 544)
- 2004-Increased tax rate from 70 cents to \$1.70 per package of 20 and changed the distribution of the tax to include a fractional distribution to PHHS for health and medical initiatives (I 149. Ballot issue November 2004)
- Economic Changes
 - Greater consumption possible due to thriving economy
 - Decline in consumption possible due to sluggish economy

Legislative Fiscal Division



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LEGISLATIVE FISCAL DIVISION

Taxes in Brief...



November 2004

Cigarette Tax

Fiscal Pocket Guide



Legislative Fiscal Division
Revenue and Taxation Policy
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Cigarette Tax

Revenue Description:

The cigarette tax is an excise tax imposed on all cigarettes sold or possessed in Montana. The tax is imposed on the retail consumer, but is collected by wholesalers or retailers through the use of tax insignia. The insignias are purchased from the state and affixed to each package of cigarettes. The tax does not apply to quota cigarettes sold on an Indian reservation. In practice, the tax is levied on all cigarettes and the wholesaler receives a refund for the amount within the quota that has been sold within the boundaries of an Indian reservation. Each tribe's quota is equal to 150.0 percent of Montana's per capita tax on cigarettes multiplied by the enrolled tribal member population, or any other amount agreed to in a state-tribal agreement. The state has agreements with five tribes in Montana.

Beginning May 1, 2003, the Fifty-eighth Legislature passed SB 407 increasing the tax on cigarettes to \$0.70 per 20-cigarette package, a 289 percent increase from the previous \$0.18 tax. Shortly thereafter, the electorate approved I-149 that raised the tax on packs of 20 cigarettes by \$1.00 to \$1.70, beginning January 1, 2005, an increase of

143 percent. Both SB 407 and I-149 changed the distributor percentage discounts, but the amounts that distributors are allowed to retain for administration of the tax stayed relatively constant. SB 407 changed the distribution of the tax revenues to increase the amount deposited into the state general fund. I-149 adjusted distributions to increase tax revenues for veterans' nursing home operation and maintenance and to provide revenue to a new state special revenue fund for health and Medicaid initiatives.

Applicable Tax Rate(s):

- Through December 2004 - The excise tax on cigarettes is \$0.70 per twenty-cigarette pack. When a pack contains more than 20 cigarettes, the tax is prorated at 1/20th of \$0.70 for each cigarette.
- Beginning January 2005 - The excise tax on cigarettes is \$1.70 per package of 20 cigarettes, prorated for packages that differ from 20 cigarettes.
- Wholesalers pay a license fee of \$50.00 and each retailer pays a license fee of \$5.00. License fees are renewable each year and are non-transferable. Revenue from these fees is shown in "All Other General Fund Revenue".

